

The marketing strategy of the Japanese textile industry and the new business model

—Focussing on the knit industry in Niigata Prefecture—

Yasuhiko Ebina Ph.D.

Content

Preface

Chapter 1. The Japanese textile industry being urged to reorganize under the international division of labour with Asian countries

Section 1. Severe trial for the Japanese textile trade

1. The increase of the import penetration rate
2. The loss of the international competitiveness

Section 2. The retreat of the Japanese textile industry and its cluster

1. National level
2. Niigata Prefecture

Chapter 2. Two paths to break through the blockade

Section 1. The inclination to the protectionism —A path to the declination—

1. The application of the safe-guard
2. The danger of the inclination to the protectionism

Section 2. The improvement of the sophistication of value added accompanied by new linkage with Asian countries —A path to the recovery—

1. The necessity of the new linkage and the original design & brand
2. The importance of the foreign marketing strategy

Chapter 3. The significance of the new business model and the way to realize it

Section 1. The emergence of the Chinese textile industry as one link in a chain of over-all emergence of Chinese industries and the significance of the new business model

1. The emergence of Chinese industries
2. The significance of the new business model

Section 2. A possibility to realize the new business model —Focussing on the

Niigata knit industry—

1. The serious circumstance surrounding the Niigata knit industry
2. How can the Niigata knit industry revitalize ?

Preface

I was astonished to read two kinds of articles in some newspapers last spring. One was a series of news reporting that Japanese textile industries —especially the towel industry, the necktie industry and even the knit industry— were going to make an application of the safe-guard against Chinese import to Japanese government. Another one was an article written by Mr. Yoichi Hunabashi titled as “Utilize the Made in China” (Asahi Shinbun April 26th 2001). In the former case the towel industry insisted that Japanese government should restrict Chinese goods even at the risk of the protectionism. But the latter took entirely opposite position. Mr. Hunabashi insisted that the Japanese textile industry should utilize the emergence of the Chinese textile industry sustained by abundant and excellent labour force for the acquisition of its own foreign market like “Uniqlo” (Note 1).

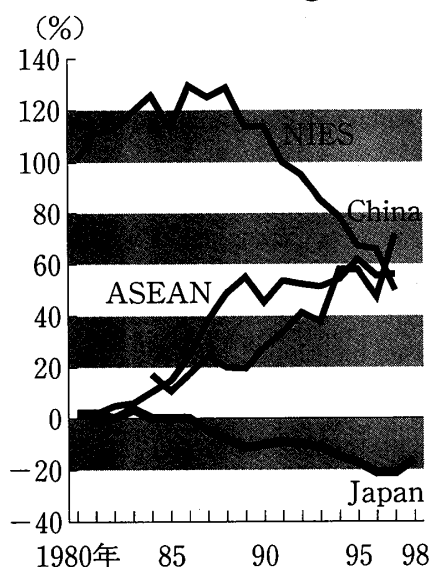
I think these two kinds of opinion imply that there are two paths to break through present blockade against the Japanese textile industry owing to high import penetration especially by Chinese goods. One is the adoption of the “protectionism” to guard against the Chinese textile goods. Another one is the build of the “new business model” resulting in the acquisition of not only domestic market but also even foreign market through the recovery of the international competitiveness of Japanese textile industry enough to cope with Chinese one. But I predict that there will be only a narrow path. Because, though it will be impossible to adopt the protectionism inevitably resulting in vicious circle between the loss of the competitiveness and the acceleration of the protectionism on the one hand, it will be not so easy to build the new business model at the cost of severe sacrifice of employment and local economies on the other hand. In spite of such a narrow path, in conclusion, we will be obliged to build the new business model since there will be no space to adopt the protectionism for us.

By the way, we must be careful of the fact that the problem is never restricted to the textile industry. For there is a rapid emergence not only in the textile industry but

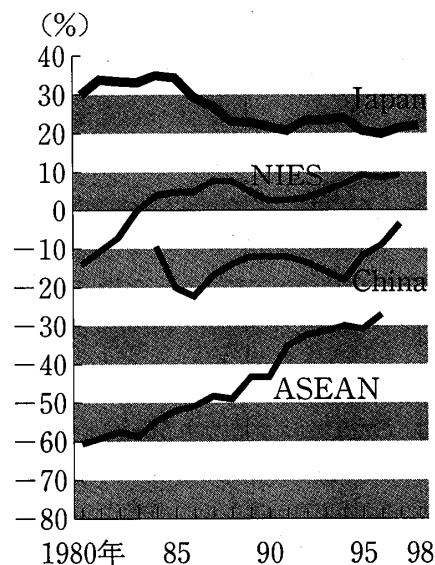
also even in the machinery industry including such high-tech industry as the electric & electronic industry in China (See Chart 0-1). As long as there is the same pattern of the emergence in which not only the Chinese textile industry but also other Chinese industries emerge through Japanese direct investment—not only resulting in the reimport of Chinese goods to Japanese market but also resulting in the reorganization of Japanese domestic industries combining into severe “hollowing problem” especially in a local district—, it will be inevitable that not only the Japanese textile industry but also other Japanese industries will face the same problem namely the blockade against Chinese products. Then in other industries including even high-tech industry there will be only the narrow path to resolve the problem.

Chart 0-1 The emergence of Chinese industries

(1) The change of the international competitiveness of the textile industry in Asian countries & regions



(2) The change of the international competitiveness of the machinery industry in Asian countries and regions



(Note) International competitiveness = The ratio of Total Volume of production/Domestic demand

(Source) The Ministry of Economy, Trade and Industry 『The report of International Trade and Industry 2001』 p.16 (modified by Asahi Shinbun [May 19th 2001]).

Moreover I think that even the blockade against present Japanese economy has the same problem, too. For, while Japanese economy is going to be threatened by the surge of reimport of goods from Asian countries including China on the one hand, it is facing severe reduction of the domestic production owing to rapid advancement of Japanese enterprises toward East Asian countries especially China on the other hand (Note 2). Then I predict that unless Japanese industries are successful in resolution

of the problem, Japanese economy will be unable to heal present stagnation, too (Note 3).

In the above-mentioned context, I think that it implies very important significance not only in the textile industry itself, but also even in other industries how the Japanese textile industry can build the new business model.

In this article, focussing on the knit industry in Niigata Prefecture, I will search the new business model in the Japanese textile industry especially in its local textile industries which is expected to contribute to the new market strategy —namely the market strategy to reacquire the market consisting not only of domestic market but also of foreign market through the recovery of the international competitiveness of the Japanese textile industry accompanied by the co-existence with the emergence of the Chinese textile industry—.

(Note 1) Uniqlo is going to acquire foreign market especially in the field of the casual apparel by getting the new competitiveness owing to its Chinese production basements. Then it's possible to say that Uniqlo is successful in building of the new business model resulting in the acquisition of the foreign market as the first runner in the Japanese textile industry. (Concerning the Uniqlo model, refer to chapter 2 [Note 8].)

(Note 2) For instance, according to the answer being filled out a questionnaire which was carried out by Nihonkeizai Shinbun-sha and Nikkei Research (refer to Nihonkeizai Shinbun August 9th 2001), 49.1% of main enterprises in the Japanese manufacturing are going to rise the ratio of overseas production in their total production for the next 3 years (its ratio has already reached to 30% in two-thirds of enterprises mentioned above in the year 2000) resulting in severe reorganization of domestic production system (1 enterprise among 5 enterprises which filled out a questionnaire is going to reduce their domestic production level for the next 3 years). Main regions toward which Japanese enterprises are going to advance are China whose share is 70.7% and Asia excluding China whose share is 57.2% (plural answers). Main purpose for their advancement is the reduction of labour cost (especially in the case of the advancement toward China). Moreover such kind of acceleration in overseas production is going to penetrate into SMEs (Small & Medium-sized Enterprise) in local manufacturing. For instance, according to the investigation which was carried out by Nihonkeizai Shinbun-sha (refer to Nihonkeizai Shinbun July 18th 2001), 13.3% of SMEs which are all located in the typical 10 clusters in Japan has already advanced toward foreign countries for the purpose of promoting overseas production in the year 2001 (the level increasing 8.1% compared to that in the year 1994). Main regions toward which SMEs have advanced are East Asia whose share is 94.3%, North America whose share is 18.1% and Europe whose share is 5.7% (plural answers). They are afraid themselves that their advancement especially toward East Asia including China would be combined into severe “hollowing of Japanese clusters —especially local ones—”.

(Note 3) Moreover there is a possibility that Japanese economy will face another trial in the near

future. The trial means a reduction of domestic market. For Japanese economy will fall into severe reduction of domestic market owing to the steep decrease of its population in the near future. Refer to the article of Kei Kumon titled as "A depression of the consumption mainly owing to slow down of the population" (Nihon Keizai Shinbun May 8th 2001).

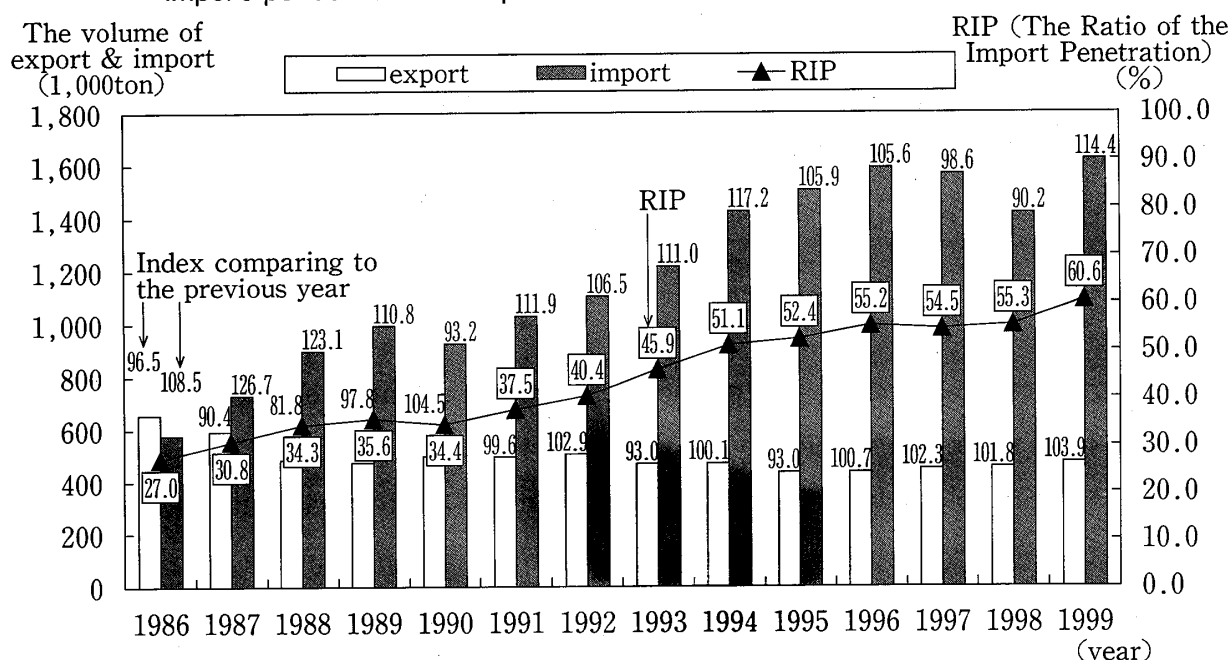
Chapter 1. The Japanese textile industry being urged to reorganize under the international division of labour with Asian countries

Section 1. Severe trial for the Japanese textile trade

1. The increase of the import penetration rate

If we are obliged to explain the characteristic of the Japanese textile trade, we should stress that it is the increase of the import penetration rate. We are astonished to find how the import penetration rate (Note 1) has steeply increased. It has increased from 27.0% in the year 1986 to 60.6% in the year 1999. Such kind of steep increase owes to rapid increase of the import compared to the stagnation of the export in contrast (See chart 1-1).

Chart 1-1 The Change of textile trade (excluding textile material) and the ratio of the import penetration in Japan

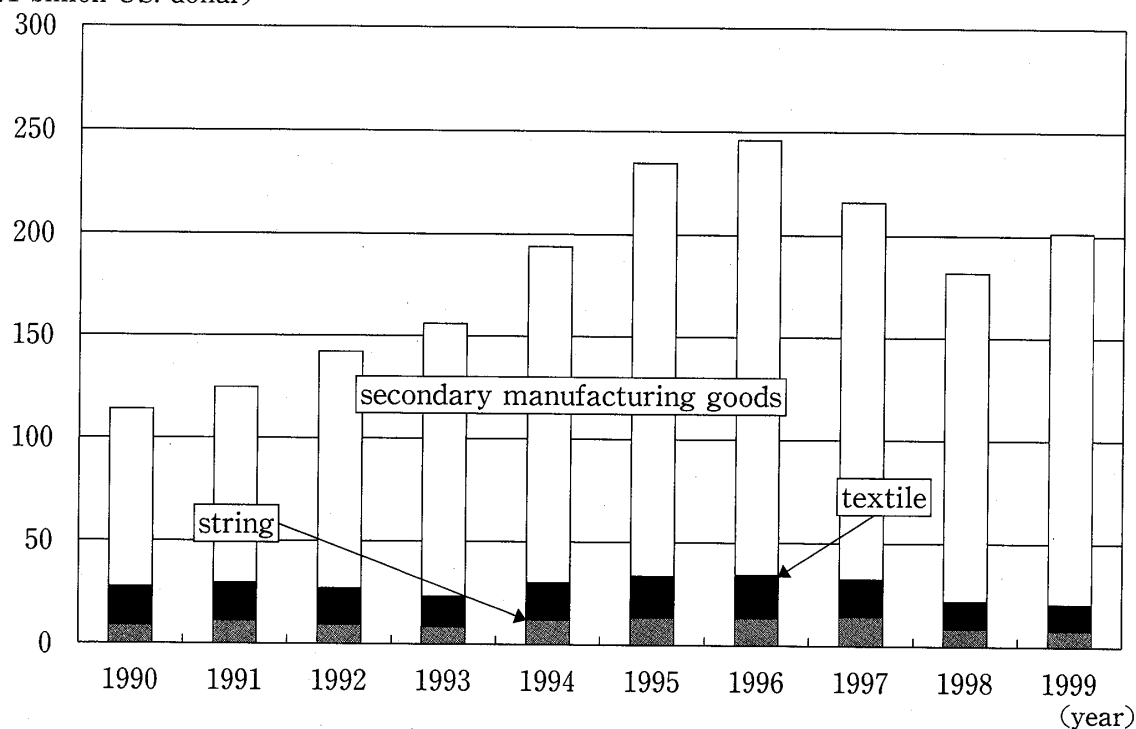


(Source) The Ministry of Economy, Trade and Industry. Committee of the textile industry 『A survey of the trade of Japanese textile industry』 (2000).

Rapid increase of the import has been brought by broad increase of secondary products including the apparel (See Chart 1-2). As the result the share of secondary products import has increased from 75.8% in the year 1990 to 89.4% in the year 1999 (Note 2). Main countries from which Japan imports are Asian countries (Chart 1-3). Among them China shares most biggest and overwhelming ratio, namely 64.3% in the year 1999.

Chart 1-2 The change of the import according to stages of manufacturing in the Japanese textile industry.

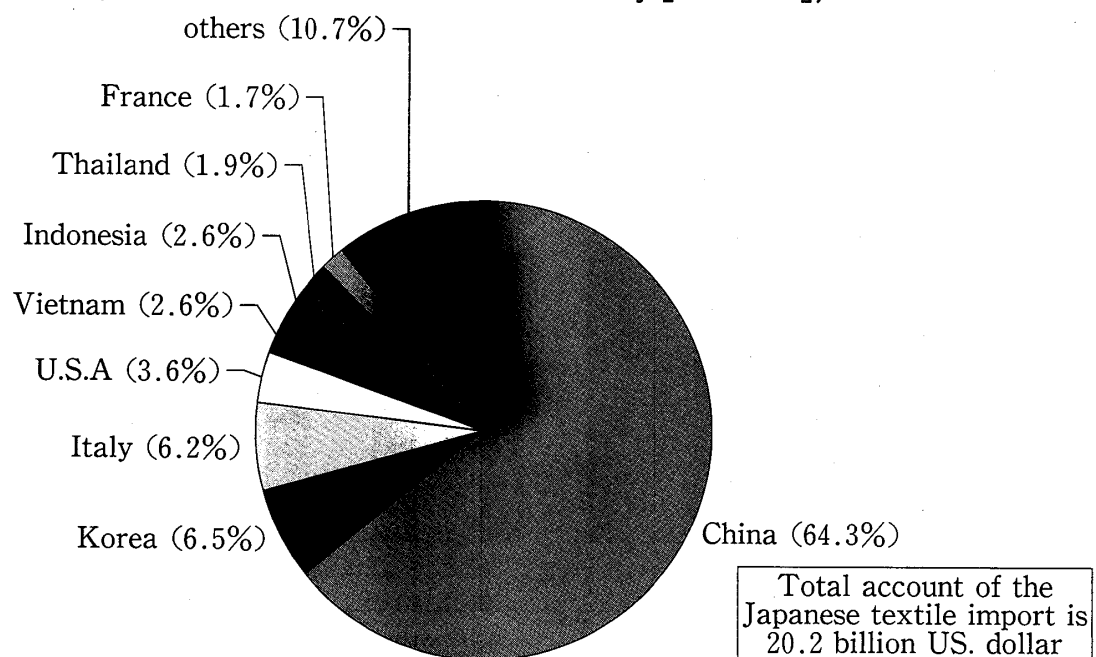
(0.1 billion US. dollar)



(Source) The Ministry of Economy, Trade and Industry. Committee of the textile industry 『A survey of the trade of Japanese textile industry』 (2000).

In contrast the position of the Japanese export has already retreated from almost the same level of import in 1986 to even a third of import in the year 1999 (See Chart 1-1). It is noticeable that the textile shares about 50% of total amount of the export in the textile industry even now though total amount of export in the textile industry stagnates (See Chart 1-4). Main countries to which Japan exports are Asian countries, too (See Chart 1-5).

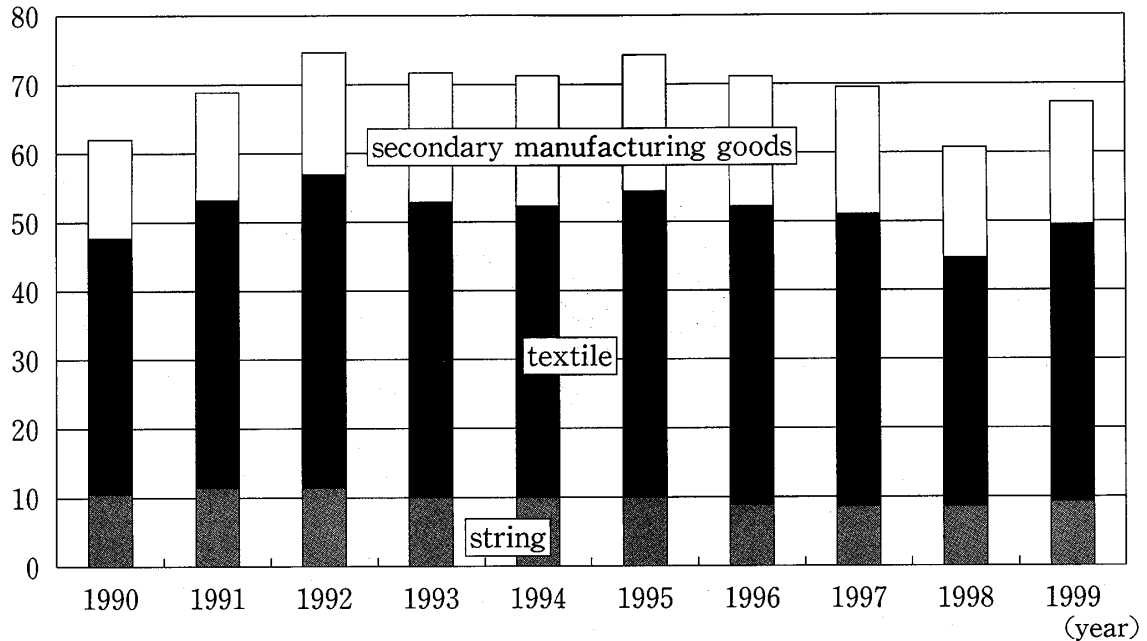
Chart 1-3 The share of exporting countries to Japan in the Japanese textile import (in 1999 year on the base of an amount of money [US dollar])



(Source) The Ministry of Economy, Trade and Industry. Committee of the textile industry 『A survey of the trade of Japanese textile industry』 (2000).

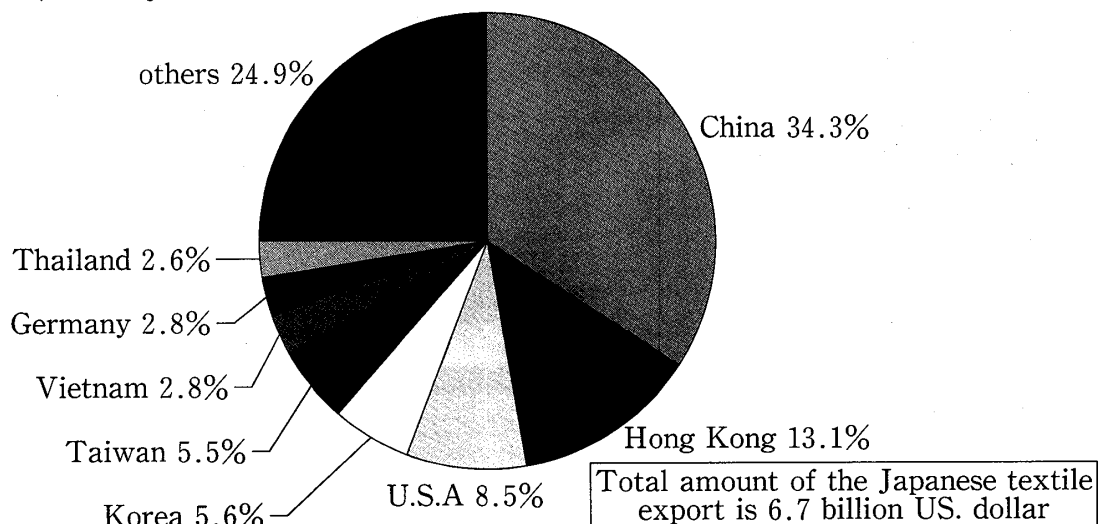
Chart 1-4 The change of the export according to stages of manufacturing in the Japanese textile industry.

(0.1 billion US. dollar)



(Source) The Ministry of Economy, Trade and Industry. Committee of the textile industry 『A survey of the trade of Japanese textile industry』 (2000).

Chart 1-5 The share of importing countries from Japan in the Japanese textile industry (in 1999 year on the base of an account of money [US dollar])



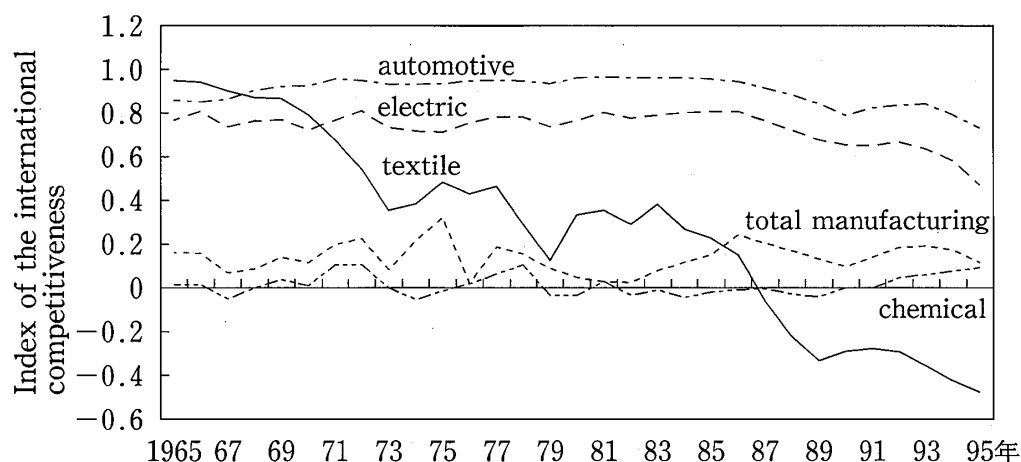
(Source) The Ministry of Economy, Trade and Industry. Committee of the textile industry 『A survey of the trade of Japanese textile industry』 (2000).

2. The loss of the international competitiveness

Why has the import increased so rapidly resulting in steep increase of the import penetration rate and why has the export so stagnated? The decisive reason is the loss of the international competitiveness of the Japanese textile industry.

At first we must take care of the trend of steep loss in the competitiveness of the Japanese textile industry compared to other Japanese industries. Though the automotive industry, the electric industry and even the chemical industry have not yet lost their competitiveness so much, the textile industry has already and steeply lost its competitiveness (See Chart 1-6) resulting in the steep increase of the import penetration rate in the textile industry mentioned above.

Chart 1-6 The comparison of the international competitiveness among Japanese main industries

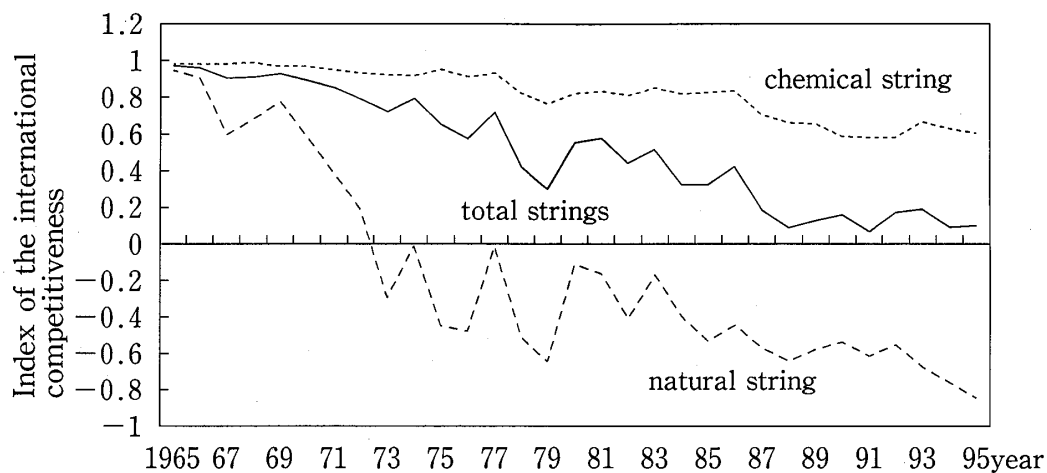


(Source) Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply?—』 (published by NTT Publication in April 2000) p.33.

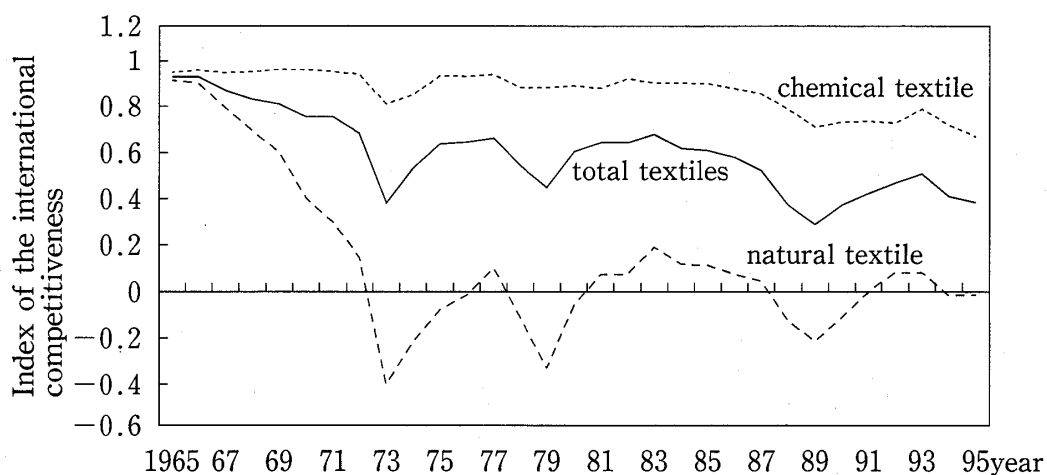
If we observe the trend of the competitiveness by the segmentation of the textile industry in detail, we can find clear correlation between the decrease of the competitiveness and the increase of the import penetration rate. The degree of decrease of the competitiveness especially in secondary products is relatively large compared to other products (See Chart 1-7-[3]). Then the ratio of the import penetration of secondary products has recorded relatively steep figure. Its figure is over 70% in the year 1995 though the same figure of the chemical string is only 8.9% in the same year (Note 3) reflecting its relatively strong competitiveness (See Chart 1-7-[1]).

Chart 1-7 The international competitiveness of the Japanese textile industry according to stages of manufacturing

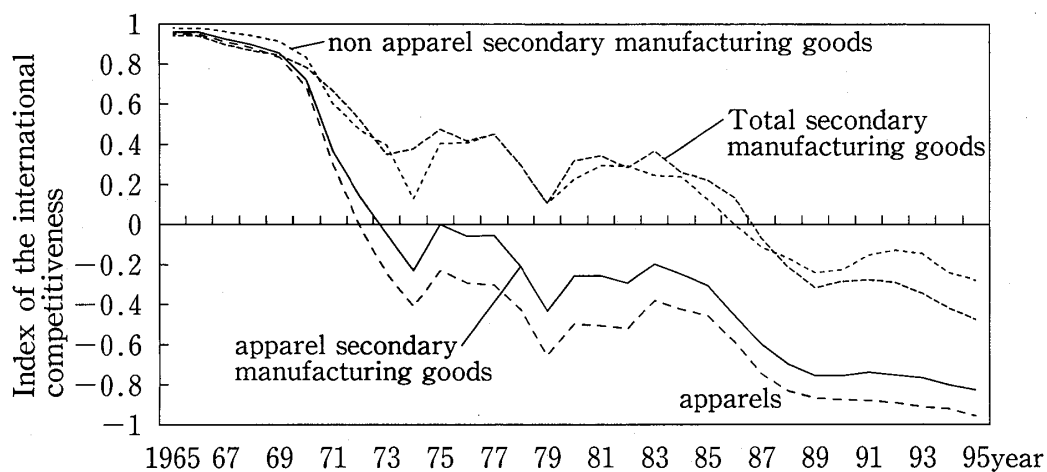
(1) Strings



(2) Textiles



(3) Secondary manufacturing goods

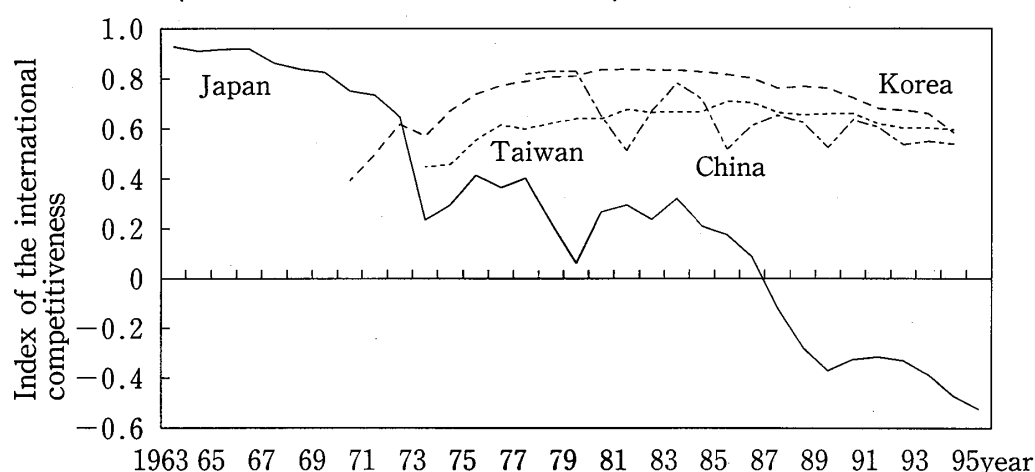


(Source) Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply?—』 (published by NTT Publication in April 2000) p.50.

Then secondly we must search the reason why the Japanese textile industry especially secondary products has lost its competitiveness so steeply. There are four factors to decide the competitiveness of the textile industry. First factor is the cost element, second is the technical element, third is the time element and last is the consumer solicitation. The Japanese textile industry has especially experienced steep loss of its competitiveness in the field of the cost element among these elements (Note 4) owing to the disadvantageousness of the labour cost compared to Asian countries's one (Note 5). The disadvantageousness of the labour cost in the Japanese textile industry has strongly induced the advancement of the Japanese direct investment —resulting in the above-mentioned reimport —toward foreign countries especially Asian countries including China (Note 6) where the labour cost is relatively advantageous compared to Japanese one (Note 7).

Lastly we must stress the situation of heads and tails of a coin that the advancement of the Japanese direct investment toward Asian countries has inevitably brought the increase of the competitiveness of the Asian textile industry and the decrease of the competitiveness of the Japanese textile industry reversely (See Chart 1-8) resulted in the steep increase of the import from Asian countries especially from China (See Chart 1-9-[2]) in the field of secondary products mainly consisting of the apparel (See Chart 1-9-[1]).

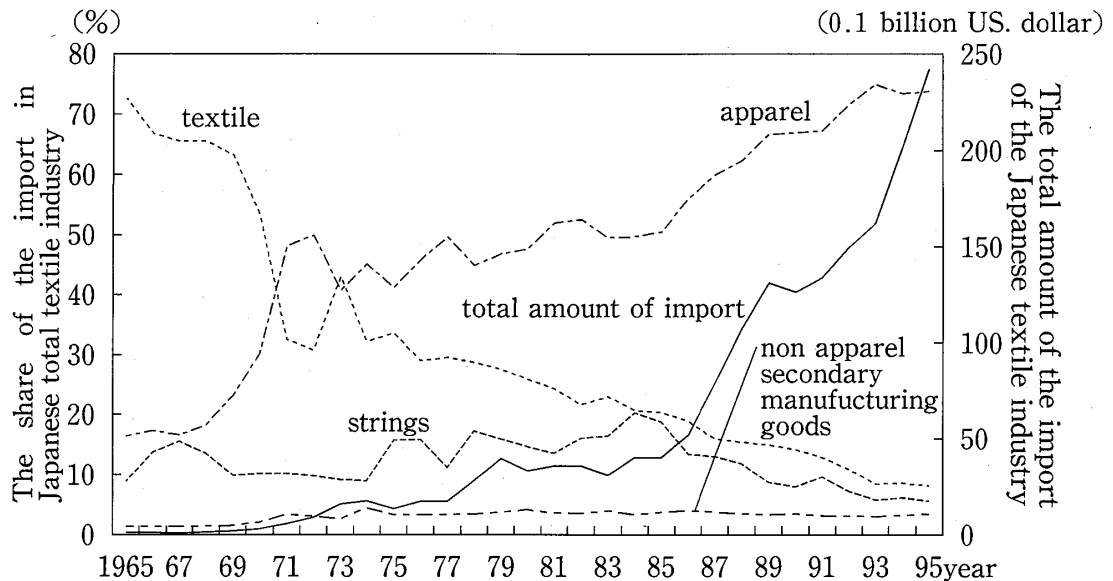
Chart 1-8 The comparison of the international competitiveness of Asian textile industries



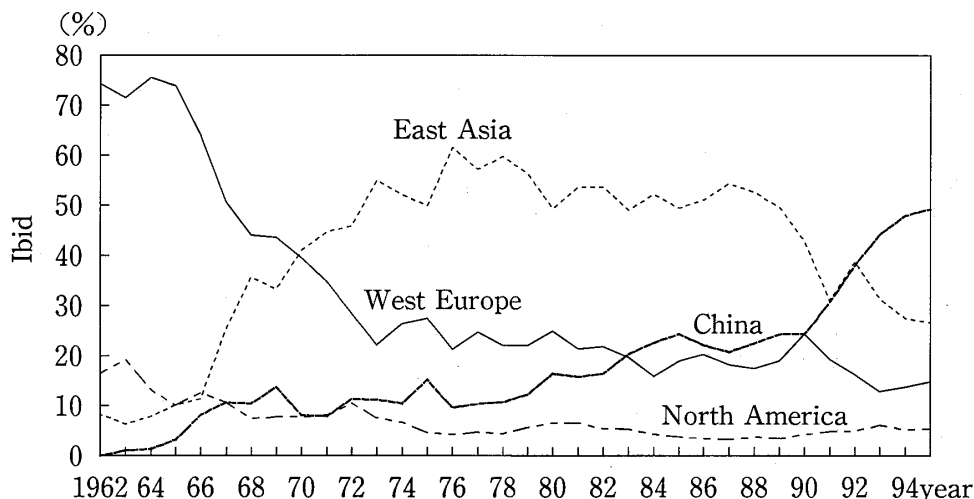
(Source) Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply?—』 (published by NTT Publication in April 2000) p.62.

Chart 1-9 The structure of stages of the manufacturing in the Japanese textile import and export countries to Japan

(1) The structure of the manufacturing in the Japanese textile import



(2) The structure of export countries to Japan



(Source) Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply?—』 (published by NTT Publication in April 2000) p.69.

By the way such kind of steep increase of the import penetration rate in the Japanese textile industry owing to the loss of its competitiveness is going to bring the severe affection —namely the falling into the vicious circle of the retreat and the import penetration— to Japanese domestic textile industry and its cluster.

Section 2. The retreat of the Japanese textile industry and its cluster

1. National level

At first we will observe the Japanese textile industry generally. Firstly it is pointed

that it has important position in the Japanese economy even now. If we check the data of the textile industry and its share in the Japanese manufacturing, we can find relatively important figures. The number of enterprises is 95 thousand whose share is 14.7%, the number of employees is 835 thousand person (Note 8) whose share is 8.0%, and the volume of shipment is 9.2 trillion Yen whose share is 3.0% (See Table 1-1). Secondly it is pointed that the Japanese textile industry consists mainly of small and medium-sized enterprises. The number of employees per one enterprise in the textile industry is only 6.7 persons which is very small compared to other industries (Note 9). Lastly it is pointed that the Japanese textile industry consists of many clusters. There are almost 160 clusters in which Fukui Prefecture, Ishikawa Prefecture and Kyoto Prefecture are main and typical ones (Note 10).

Table 1-1 Main indicator of the Japanese textile industry

	1986 year	1998 year
shipment	12.9 trillion Yen (5.0%)	9.2 trillion Yen (3.0%)
enterprises	141 thousand (18.9%)	95 thousand (14.7%)
employees	1,330 thousand person (11.5%)	835 thousand person (8.0%)

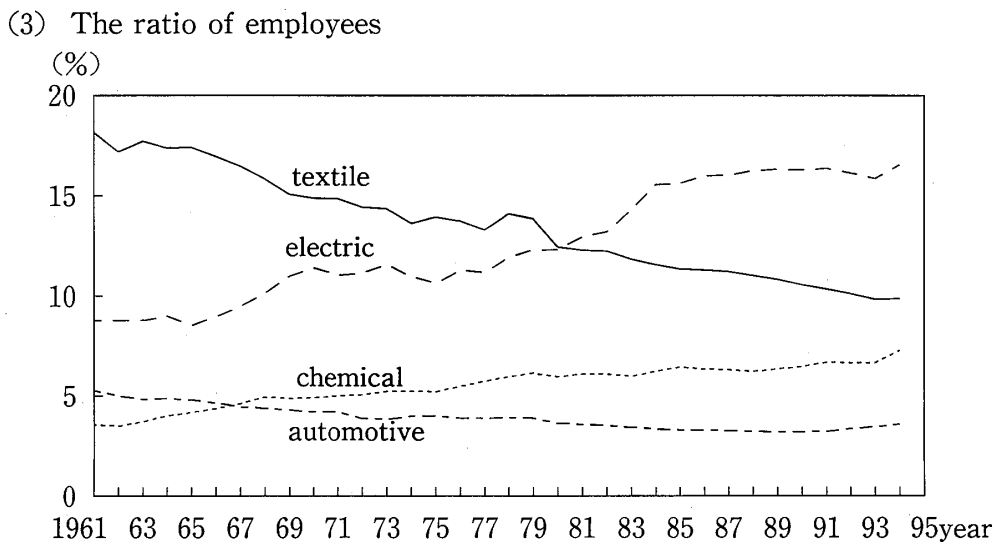
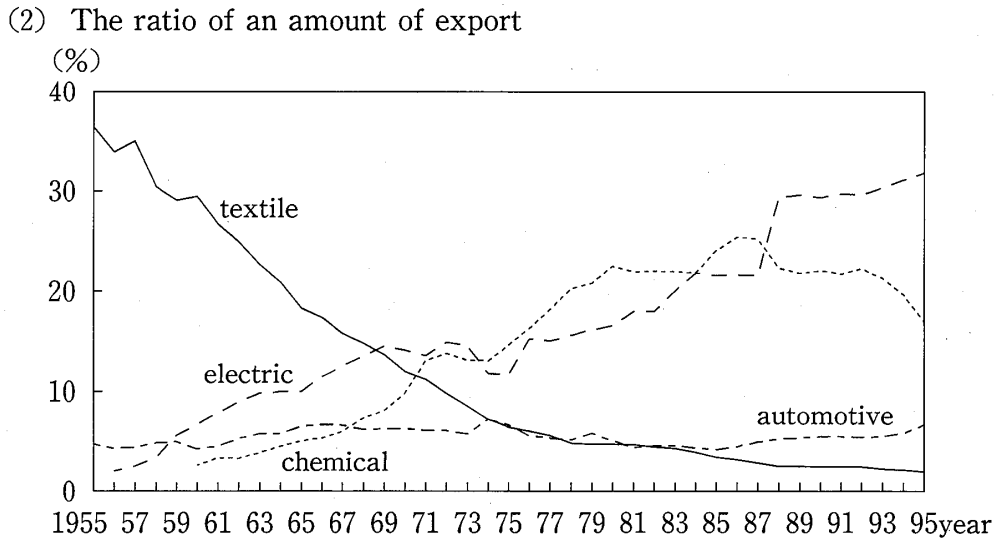
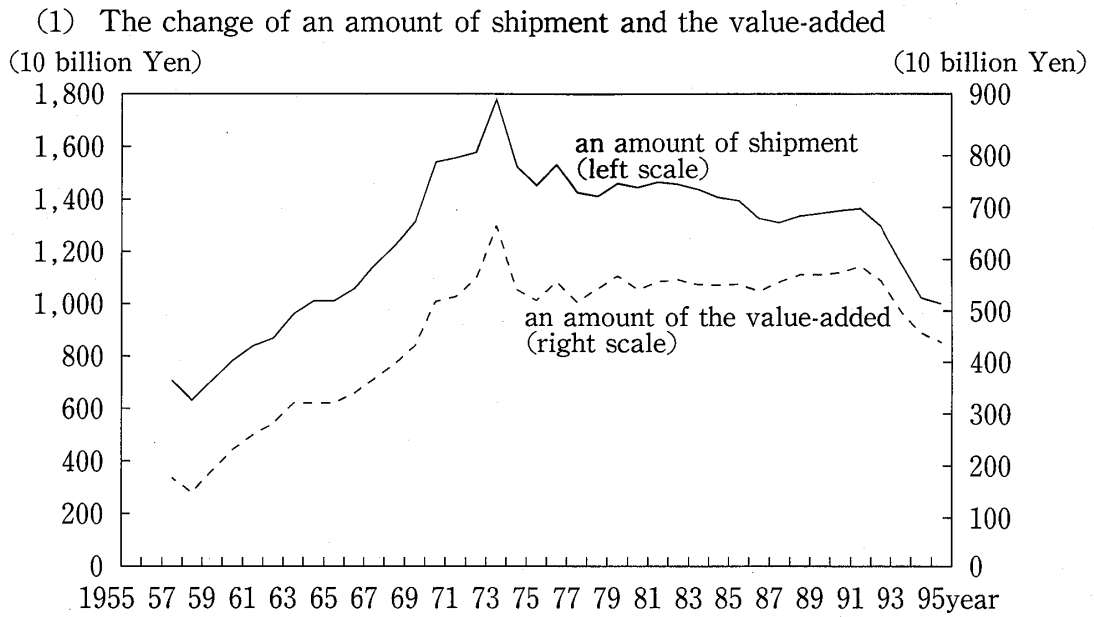
(Note) 1. Total enterprises (the number of enterprises which employers are 1~3 person is estimated)

2. The figure in the brackets means the share of the textile industry in total manufacturing

(Source) The Ministry of Economy, Trade and Industry. Committee of the textile industry 『A survey of the trade of Japanese textile industry』 (2000).

But we must point out the fact that the position of the Japanese textile industry is remarkably going to retreat. If we observe the trend of the production and the shipment, the former index figure has decreased from 100.0 in the year 1995 to 79.7 in the year 1999 and the latter index figure has decreased from 100.0 in the year 1995 to 77.3 in the year 1999 resulting in remarkable retreat of its position. Moreover we must take care of the fact that such kind of retreat trend lasted over 30 years (See Chart 1-10-[1] • [2] • [3]). Then we cannot neglect the fact how the retreat of the Japanese textile industry is severe.

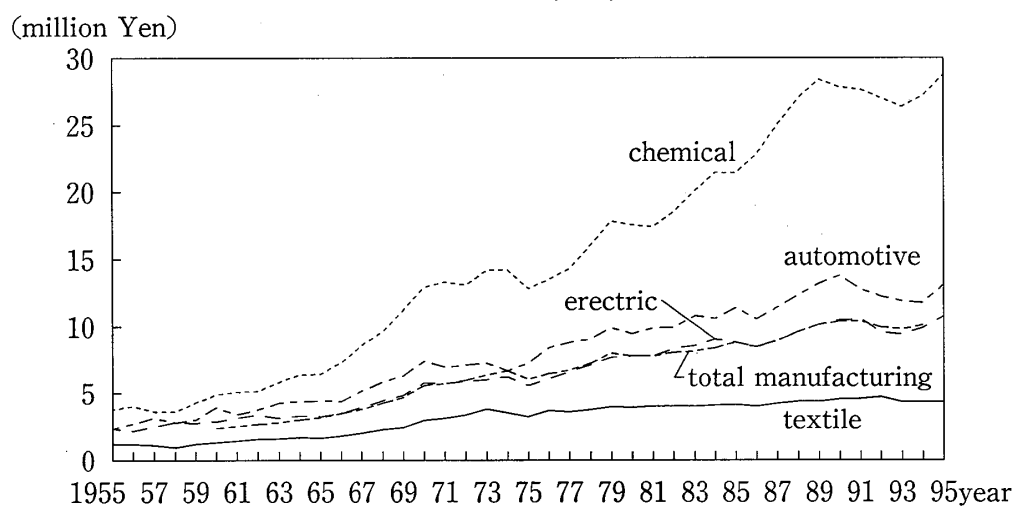
Chart 1-10 The retreat of the Japanese textile industry



(Source) Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply?—』 (published by NTT Publication in April 2000) p.31.

Why is the Japanese textile industry going to retreat so remarkably ? Simply speaking there is only one reason —but it is decisive one—. Because it failed to increase the value added. The value added per person in the textile industry has hardly increased from the year 1955 to the present time when almost important industries in Japan have increased their value added per person in contrast (See Chart 1-11).

Chart 1-11 An amount of the value-added per person in Japanese main industries



(Source) Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply?—』 (published by NTT Publication in April 2000) p.33.

There are two factors in the failure of value added policy in the textile industry. To explain this problem we must understand the theory of the value added productivity. The value added productivity consists of the multiplication of the value added of manufactured goods and the productivity (Note 11). Then we can theoretically say that the textile industry failed in the sophistication of the value added (Note 12) and the improvement of the efficiency (Note 13). Substantially the data proves this theory. When we study the trend of the value added productivity in the textile industry segmenting it in the chemical thread manufacturing, in the dyeing industry, in the spinning industry and in the textile industry, we can find the fact that in the stagnation of the value added productivity in these industries (Note 14) there is precise equivalent for the failure of the sophistication of the value added (especially in the case of the chemical thread manufacturing, the spinning industry and the textile industry [Note 15]) and of the improvement of efficiency (especially in the case of the dyeing industry [Note 16]). And we should especially take care of the fact that so far

as the failure of the sophistication of the value added is concerned, there is a common characteristic in these industries (Note 17) mainly resulting in the stagnation of the value added productivity in the Japanese textile industry. Please compare the case of the textile industry to the case of the steel industry and to the case of the automotive industry in contrast (See chart 1-11). Both industries are successful not only in the improvement of efficiency but also in the sophistication of the value added (in the latter case a steep sophistication of automotive industry in the year 1990's is especially noticeable) (Note 18).

Then it is concluded that the retreat of the Japanese textile industry owes mainly to the failure of the sophistication of the value added policy.

By the way, the sophistication of the value added means the "high-quality" in other words. Then, plainly speaking, the Japanese textile industry has failed in the "high-quality merchandising". But we cannot neglect the fact that there is another structural and social disadvantageousness against the Japanese textile industry. That is the labour cost rising combined into the high cost which results in the "high-price". Then, ironically, the Japanese textile industry has fallen into the relative "low-quality" owing to the failure of the sophistication of the value added and has absolutely fallen into the "high-price" owing to the structural change in Japanese economy, too. There is no need to say that the Japanese textile industry losing their competitiveness has been necessarily defeated by Asian countries's textile industries especially Chinese one which have already acquired much stronger competitiveness than the Japanese textile industry owing to absolute cheap labour cost and relative "high-quality". Then we are regrettably obliged to say that it is just a matter of the time before the Japanese textile industry has fallen into the vicious circle of the retreat and the import penetration.

By the way, unfortunately, such kind of retreat is never exceptional in the Japanese textile industry clusters (Note 19). Then we are going to study this point taking up Niigata Prefecture.

2. Niigata Prefecture

The textile industry consisting of the silk fabrics, the synthetic fiber and the knit is one of main industries (Note 20) in Niigata Prefecture. The share of the textile industry in total manufacturing is as follows (Note 21). The share of enterprises is

15.5% in the year 1999 which is ranked as the second after the metal manufacturing. The share of employees is 12.5% in the same year which is ranked as the fourth after the electric machinery, the food-stuffs and the metal manufacturing. The share of the shipment is 5.4% in the same year which is ranked as the sixth after the electric machinery, the food-stuffs, the metal manufacturing, the general machinery and the chemicals.

If we break down the textile industry, there are two kinds of industries roughly. One is the cloth for the knit, and clothes & shirts made of the cloth for the knit. Another one is the textile fabrics, and clothes & shirts made of the textile fabrics. Concerning the former, the share of enterprises is 32% (composition rate, and so on), the share of employees is 31% and the share of shipment is 35% (Note 22). Relating to the latter, the share of enterprises is 28%, the share of employees is 41% and the share of shipment is 35% (Note 23).

But we cannot deny the remarkable retreat of the textile industry in Niigata Prefecture, too. In any aspect of the number of enterprises, the member of employees and the sum of shipment, the trend of decrease is continuing (See Table 1-2). As the result the position of the textile industry has retreated. For instance the above share of shipment in the textile industry decreased from 13.0% in the year 1979 which was ranked as the first to 5.4% in the year 1999 which is ranked as the sixth mentioned above. Especially the shipment of the textile fabrics has most remarkably retreated resulting in the fact that its share declined from 38% in the year 1994 to 23% in the year 1999 (Note 24).

Table 1-2 The change of the Niigata textile industry

	the number of enterprises	index compared to the previous year	the number of employees	index compared to the previous year	an amount of shipment	index compared to the previous year
		%	person	%	million yen	%
1994 year	3,324	94.1	43,612	96.0	385,490	93.6
1995	3,141	94.5	40,763	93.5	360,760	93.6
1996	2,987	95.1	38,619	94.7	339,811	94.2
1997	2,849	95.4	36,704	95.0	330,064	97.1
1998	2,797	98.2	33,607	91.6	287,849	87.2
1999	2,586	92.5	30,761	91.5	250,328	87.0

(Source) Niigata Prefecture 『The manufacturing of Niigata Prefecture』 (2000) p.78.

In conclusion we should recognize that the situation of the textile industry in Niigata Prefecture is almost the same as it is in the national level.

By the way, how can the Japanese textile industry improve the sophistication of the value added which is most important measure to break through the blockade resulting in the retreat of the Japanese textile industry owing to the defeat by the competition with Asian countries especially with China ? We will study this theme in the next chapter.

(Note 1) The Import Penetration Rate (IPR) is defined as follows;

IPR=Import volume/Domestic demand

(Note 2) About 40% of the secondary products import is the reimport by Japanese apparel makers and textile makers.

(Note 3) Refer to Satoshi Tateyama “The glory and the declination —A summary and a history of the Japanese textile industry—” (Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply ?—』 [published by NTT Publication in April 2001]) p.49.

(Note 4) Refer to Ibid p.52.

(Note 5) Refer to Ibid p.53.

(Note 6) Refer to Takeshi Higaki & Masanori Mori “The change of the international circumstance and the Japanese trade & foreign investment” (Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply ?—』 [published by NTT Publication in April 2001]) p.74.

(Note 7) Refer to Satoshi Tateyama “The glory and the declination —A summary and a history of the Japanese textile industry—” (Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply ?—』 [published by NTT Publication in April 2001]) p.53.

(Note 8) If we include surrounding employees, total number of employees in the textile industry reaches to almost 1,900 thousand.

(Note 9) Refer to The Ministry of Economy & Industry 『A survey of the trade of the Japanese textile industry』 (2000) Appendix [Chart;The number of employees per enterprise].

(Note 10) Refer to Ibid. Appendix [Table;The number of enterprises and employees of the textile industry in clusters]

(Note 11) The value added productivity=(the sum of value added/the volume of products)×(the volume of products/the number of employees)=the value added of manufacturing goods×the productivity

(Note 12) We call the increase of the value added of manufacturing goods as the “sophistication of the value added”.

(Note 13) We call the increase of the productivity as the “improvement of the efficiency”.

(Note 14) The value added productivity in the chemical thread manufacturing is higher compared to the other industries in the textile industry. But even in the case of the chemical thread manufacturing any peak of the value added productivity after the year 1970 could hardly exceed the peak in the year 1969 (refer to Daisuke Masaki & Koitiro Kodama “Too little in the scale and too complex in the structure of the up-stream & the middle-stream” [Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply ?—』 [published by NTT Publication in April 2001] p.93).

- (Note 15) Refer to Takayuki Okada & Shinichiro Kono “Advanced technology and wandering strategy —the technology and the starategy of the upstream & the downsream—” (Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply ?—』 [published by NTT Publication in April 2001]) p.138~139.
- (Note 16) Refer to Ibid.
- (Note 17) We should be careful of the case of the dyeing indusutry. The failure of the sophistication of the value added in the case of the dyeing industry is not so severe. However, it should not be neglected that even the dyeing has a declining trend in the sophistication of value added even if the declining trend is gradual compared to the other industries (refer to Takayuki Okada & Shinitiro Kono “Advanced technology and wandering strategy —the technology and the starategy of the up-stream & the down sream—” [Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply ?—』 <published by NTT Publication in April 2001>] p.138~139).
- (Note 18) Refer to Ibid p.142~144.
- (Note 19) There are many clusters of the textile industry which have fallen into the critical condition by the retreat of the textile industry. For instance in Imabaru of Ehime Prefecture which occuppies about 60% of domestic towel production, the volume of towel production was 27,300 ton in the year 2000 decreasing near 40% from the level in the year 1999 when the volume of towel production recorded the peak owing to the increase of towel import especially from China (refer to Nihon Keizai Shinbun April 30th 2001). In Nishijin of Kyoto Prefecture which is typical of necktie cluster, the volume of necktie production was 7,140,000 pieces in the year 2000 decreasing 17% from the level in the year 1999 and decreased a half from the level in the peak owing to the increase of import especially from China, India and Korea (Ibid), too.
- (Note 20) Main industries of Niigata Prefecture consist of the food-stuffs, the electric machinery, the general machinery, the metal manufacturing and the textile industry.
- (Note 21) Refer to Niigata Prefecture • Commerce & Industry Bureau 『The commerce and the industry of Niigata Prefcture』 (2000 year) p.78.
- (Note 22) Refer to Ibid.
- (Note 23) Refer to Ibid.
- (Note 24) Refer to Ibid p.79

Chapter 2. Two paths to break through the blockade

There are two kinds of paths to break through the present blockade. One is the inclination to the protectionism. Another is the promotion of the sophistication of the value added accompanied by the co-existence with textile industries in Asian countries especially in China.

Section 1. The inclination to the protectionism —A path to the declination—

1. The application of the safe-guard

It could be inferred that the Japanese textile industry is going to incline to the former path namely the protectionism. For instance the towel industry has already made an application to Japanese government for the action to restrict the import —namely emergent import restriction called as the safe-guard— from China. It is reported that other industries including the necktie industry and the knit industry are considering the same application as the towel industry did. It should not be neglected that these industries are threatend by steep and rapid import from China (Note 1). In such a rapid increase case, WTO permits an emergent import restriction as the safe-guard. Then such kind of application itself should not sweepingly be blamed as the protectionism (Note 2).

2. The danger of the inclination to the protectionism

Nevertheless we should not neglect the fact that in such a kind of application there is a possibility to drop in the protectionism at the risk of vicious circle (Note 3). Because the textile industrial policy which has been carried out by Japanese government in post World War II has often been inclined to the protectionism (Note 4) resulting in the vicious circle in which the protectionism has resonated with severe loss of international competitiveness owing to the failure of value added policy especially the failure of the sophistication of the value added, and because we cannot avoid a possibility that such a kind of application will strengthen the vicious circle policy, too.

Section 2. The improvement of the sophistication of the value added accompanied by new linkage with Asian countries —A path to the recovery—

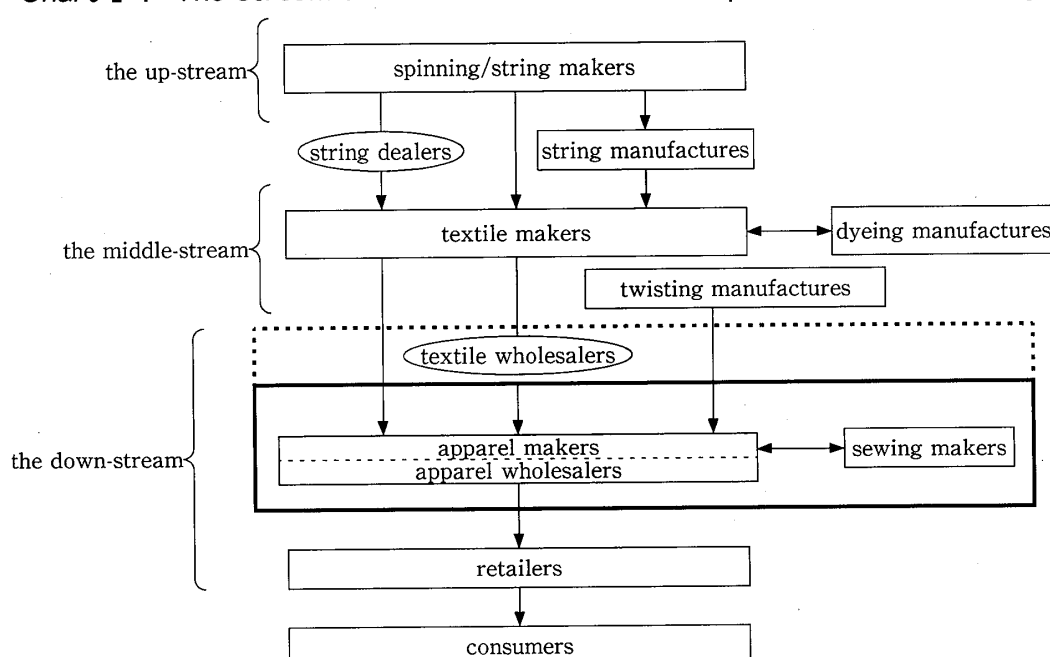
There is another possibility to break through the blockade. That is the promotion of the sophistication of the value added accompanied by the co-existence with textile industries in Asian countries especially in China.

1. The necessity of the new linkage and the original design & brand

At first we must find ways to promote the sophistication of the value added. There are two ways to promote it. One is to build the new linkage between the down-stream

consisting mainly of apparel makers and the middle-stream consisting mainly of textile makers (See Chart 2-1) (Note 5), because the failure of the sophistication of value added owes mainly to the failure of the “linkage” between the apparel and the textile (Note 6). Another one is to enhance the ability of the design & brand—especially the original design—by leaps and bounds. For the ability to design of the Japanese textile industry depends mainly on the textile industries in European countries especially in Italy resulting in the failure of the sophistication of the value added, too (Note 7).

Chart 2-1 The stream and the structure of the Japanese textile industry



(Source) Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply?—』 (published by NTT Publication in April 2000) p.194.

And we should be careful about the synthesis of the new linkage and the original design ability. Japanese apparels have already tried to build the new linkage between them and sewing makers in Asian countries especially in China. But some of them are going to build “super new linkage” beyond new one. Most typical case is “Uniqlo model” (Note 8). Uniqlo is importing about 90% of its goods including not only sewing goods but also apparel goods from its cooperating companies in China (Note 9) in which a considerable part of the volume is going to be procured through BCM (Borderless Collaboration Network [Note 10]) using SCM (Supply Chain Management) system correspondingly (Note 11), and its Japanese company namely

head office is selling its imported apparel goods to Japanese consumers by UON (User-Oriented Network [Note 12]) using SCM in the test case (Note 13), too. Namely Uniqlo is going to built super new linkage not only as an apparel maker but also as a “Info-mediator”. So the nature of linkage will change from the manufacturing one to the info-mediator one which will be designed to reflect most fresh trends in the market on its merchandising policy called as “Merchandised design” through IT (Information Technology). Then we can say that its new business model implies not only the former namely the formation of the new linkage but also the latter namely the ability to make an original design simultaneously and we can define this new business model as “Merchandising design model” in which SPA system plays a decisive role as already mentioned (refer to Note 8). And it should ne noted that the ability to make an original design will result in the ability to get an original brand being necessary to acquire the new market mentioned in the next clause.

Moreover, it should be noted that such a kind of new business model is going to be followed not only by other Japanese apparels but also by other Japanese industries, too (Note 14).

2. The importance of foreign marketing strategy

But we must be careful about the change of marketing condition. Firstly we should stress the importance of foreign maketing strategy. Needless to say, the market of Japanese apparels consists of domestic market and foreign market. But Japanese apparels are going to lose their foreign market because the Japanese textile export hardly increase compared to the rapid increase of import resulting in the loss of domestic market itself through steep rise of penetration rate as already mentioned above. Then if Japanese apparels want to protect their market, they must change their attitude from present passive one toward more progressive one and should reverse their marketing strategy from domestic-oriented one toward export-oriented one which will contribute not only to acquiring foreign market but also to protecting their domestic market itself (Note 15).

Secondly we should take notice of the emergence of the Asian textile market especially of the emergence of the Chinese huge market. We should not neglect the fact that the emergence of the Chinese textile industry implies a possibility of the emergence of the huge textile market in Asian countries on the one hand. Then the

linkage mentioned above should be built not only between the middle-stream and the down-stream but also between the down-stream and consumers including foreign consumers who consists not only of European and American consumers but also of Asian consumers, too (Note 16).

Thirdly it is fortunate that the Japanese textile industry has a chance to acquire new competitiveness favorable to promote their export. Because the investment of the Japanese textile industry toward China implies that Japanese apparels can not only improve “efficiency” but also reduce cost burden through another linkage between the up-stream in the Chinese textile industry and the middle-stream in the Japanese textile industry (Note 17).

To conclude, it will be easily recognized that the introduction of the foreign marketing strategy in the Japanese textile industry means the adoption of “new business model” accompanied by the co-existence with the Chinese textile industry.

How are we able to realize such a kind of new business model in the Japanese textile industry ? We will study this subject in the next chapter.

(Note 1) The volume of the towel import has rapidly increased from 48,333 ton (the penetration rate was 44.9%) in the year 1998 to 64,997 ton (the same rate was 57.0%) in the year 2000 (refer to Nihon Keizai Shinbun April 7th 2001), and the volume of the import from China reaches to near 50,000 ton in the year 1999 (refer to Asahi Shinbun February 26th 2001). As the result the volume of domestic production of the towel has remarkably decreased from over 100,000 ton in the year 1990 to only 50,000 ton in the year 1999, and the member of enterprises which attend to the Association of Japanese Towel Industry has radically reduced from 925 in the year 1990 to only 457 in the year 1999 (refer to Ibid). In the case of the necktie industry the volume of the import from China has rapidly increased recently and has recorded the level of 13,000,000 pieces in the year 2000 increasing near 40% compared to the level in the year 1999 (refer to Nihon keizai Shinbun April 30th 2001). In the case of the knit, the volume of the import from China has rapidly increased. The amount of the import from China has increased from 94 million shirts (the penetration rate was 53%) in the year 1990 to 873 million shirts (the same rate was 89%) in the year 2000 (from January to November) (refer to Niigata Nippo March 5th 2001).

(Note 2) Refer to Yuzuru Hatakeyama “There are some faults in Chinese countermeasure against the Japanese adoption of safe-guard” (Sankei Shinbun August 5th 2001).

(Note 3) Refer to Hukunari Kimura “The safe-guard accompanied by the protectionism” (Nihon Keizai Shinbun April 20th 2001).

(Note 4) To recognize how Japanese government has often inclined to the protectionism in the textile industrial policy, refer to the article written by Prof. Hiroyuki Itami. The title of the article is as follows; Hiroyuki Itami “Is a herald or an excepcional ?” (Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply ?—』

[published by NTT Publication in April 2001]] p.17~20.

(Note 5) The textile industry consists of three kinds of business groups. First is the material group which is called as the up-stream. Second is the textile group which is called as the middle-stream. Third is the apparel group which is called as the down-stream. Contents of each group are as follows.

- The up-stream; chemical fiber manufacturers, the silk industry, the spinning industry and the twisting industry
- The middle-stream; textile manufacturers, knit material manufacturers and dyeing manufacturers
- The down-stream; sewing makers, apparels and others

(Refer to Satoshi Tateyama “The summary and the small history of the Japanese textile industry” [Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply?—』 <published by NTT Publication in April 2001>] p.28~29.)

(Note 6) Refer to Yukiko Naruse & Satoshi Tateyama “The structure and the linkage in the apparel industry; the structure inclining toward inside and week linkage” (Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply?—』 [published by NTT Publication in April 2001]) p.175~205.

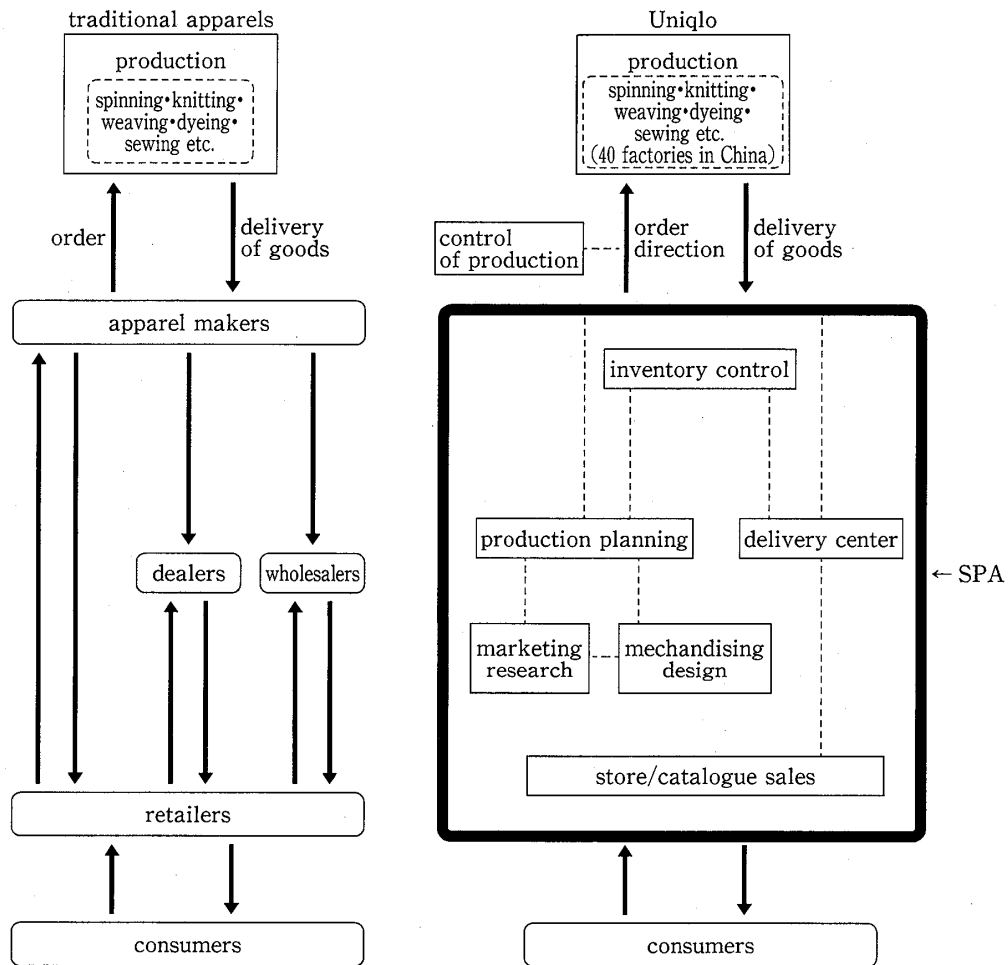
(Note 7) Refer to Hiroyuki Itami “Is a herald or an exceptional?” (Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply?—』 [published by NTT Publication in April 2001]) p.25.

(Note 8) Uniqlo is famous as “Category killer”—namely “Price destroyer”, speaking more frankly, —among textile industries especially among apparels in Japan owing to “exploiting of extraordinarily cheap labour in China” resulting in a “hollowing of the Japanese textile industry”. But we must not be deluded by such a kind of “notorious brand” and should not neglect essential significance in the problem being brought about by Uniqlo. Uniqlo has brought about a “Business model revolution” in the Japanese textile industry. There are three reasons why Uniqlo has brought it about. First reason is the fact that Uniqlo has emerged as a “Challenger” in the Japanese textile industry in which there is no coordinator among three kinds of business groups— namely among the up-stream, the middle-stream and the down-stream [refer to Note 5]— because evrybody among them has hesitated to take the risk namely the “purchasing sale system” (refer to later section) which is inevitable in adoption of seamless business system. But Uniqlo has gone ahead and has tried to adopt the seamless business system however hard and risky it may be to manage because they have thought that the efficiency of the Japanese textile industry would improve by leaps and bounds by adopting this system. Then we can regard Uniqlo as a challenger. We can find the second reason in adoption of SPA (Speciality Store Retailer of Private Label Apparel) as new business model taken by Uniqlo. Uniqlo has adopted SPA for the purpose of promoting its seamless business system because SPA is thought as most advantageous business model for seamless business system and covers almost business processes— among three business groups —consisting of the development & design of merchandise, the procurement of materials, the manufacturing, the logistics and the sale (refer to Chart 2-2-[1]). Moreover it is noticeable that SPA has a possibility to combine with IT because SPA has an affinity with SCM in the field of the architecture of business process synthesizing—in a broad sence SCM has a possibility to cover CRM (Consumer Relationship Management) which is an indispensable concept in SPA—. Then Uniqlo will be the first runner not only in adopting new business model but also even in adoption of new IT model

depending on the situation. Thirdly we cannot forget the adoption of the “boarderless collaboration”. Uniqlo has never neglected the risk accompanied by the adoption of SPA. Because the advantageousness namely the efficiency of SPA has never been realized until Uniqlo’s “risk-taking” namely the adoption of the purchasing sale system —exceptional system in the Japanese textile industry even now— in which system merchandise are never taken back even in unsold case compared to the consignment sale system (ordinary system in the Japanese textile industry) in which merchandise are easily taken back even in unsold case. Then Uniqlo is obliged to take new merchandising policy (namely “high-quality with low-price merchandise” policy) instead of orthodox merchandising policy (namely “high-quality with high-price merchandise” policy) to promote the mass-sale of its merchandise. There is no need to explain at tedious length that it is possible to get the high-quality merchandise policy by the value added because its possibility has already been explained in the above section (refer to Chapter 2-Section 2-1). But we should not forget that it is not necessarily possible to get the “high-quality with low price merchandise” only by the value added. In an ordinary situation, the “high-quality” is necessarily accompanied with the “high-price” under the condition in which other factors are the same. Well then how can we realize it? Fortunately Uniqlo has found a way to realize it. Uniqlo has been able to realize it by using the “boarderless collaboration” —namely the collaboration between its head office and Chinese cooperating companies— because it is possible to combine the “high-quality” with the Chinese cheap labour cost (refer to Chart 2-2-[2] and Chart 2-2-[3]) through this collaboration. To come to a conclusion, we cannot neglect that the “Uniqlo model” has a strategic —and even a “revolutional”— characteristic owing to the above-mentioned three reasons and we should stress that even if the utilization of Chinese cheap labour cost plays a very important role, it occupies only a part of Uniqlo strategy. (Refer to the article written by Shigeru Asaba & Toshiko Nitta “Uniqlo” [Kikan Mirai Keiei <Spring 2001>] p.92~97.)

Chart 2-2 Uniqlo's business model

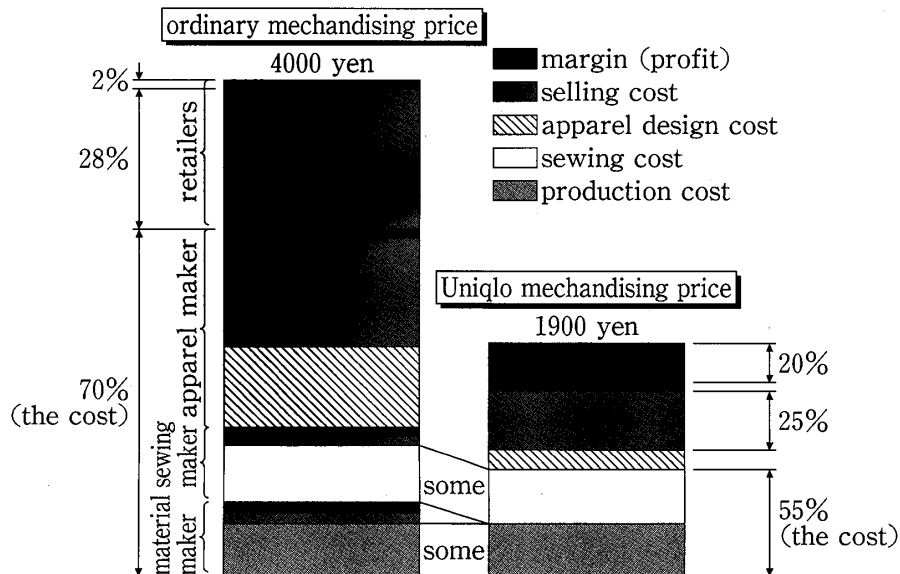
(1) Traditional apparels's business model and Uniqlo's one



(Note) SPA (Speciality Store Retailer of Private Label Apparel)

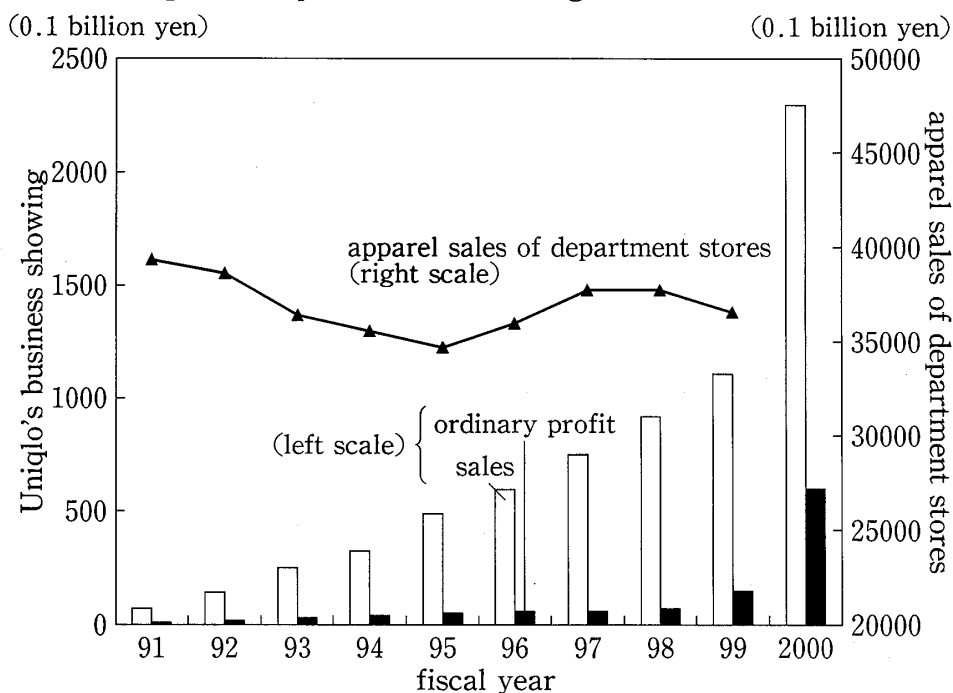
(Source) Shigeru Asaba & Toshiko Nitta "Uniqlo" (Kikan Mirai Keiei [Spring 2001]) p.93.

(2) The comparison of cost and price



(Source) Shigeru Asaba & Toshiko Nitta "Uniqlo" (Kikan Mirai Keiei [Spring 2001]) p.93.

(3) The change of Uniqlo's business showing



(Source) Shigeru Asaba & Toshiko Nitta "Uniqlo" (Kikan Mirai Keiei [Spring 2001]) p.92.

(Note 9) Refer to the article of Shigeru Asaba & Toshiko Nitta "Uniqlo" (Kikan Mirai Keiei [Spring 2001]) p.94 and Mainiti Shinbun November 29th 2000.

(Note 10) Refer to Yasuhiko Ebina "The Chuetsu Mold & Die industry and IT —Some subjects for 「Tier I」—" (being compiled to 『The Chuetsu Mold & Die industry in Niitata Prefecture and IT—The study of The information network system in Local enterpsise; Part II—』 published by Niigata University of Management • the Institute for the Regional Vitaliza-tion, December 2001) Preface p.1~10.

(Note 11) Refer to Nihonkeizai Shinbun February 9th 2001 and Asahi Shinbun July 14th 2001.

(Note 12) Refer to Yasuhiko Ebina "The Chuetsu Mold & Die industry and IT —Some subjects for 「Tier I」 —" (being compiled to 『The Chuetsu Mold & Die industry in Niigata Prefecture and IT—The study of the information network system in iocal enterpsise; Part II—』 published by Niigata University of Management • the Institute for the Regional Vitaliza-tion, December 2001) Preface p.3~4.

(Note 13) Refer to Nihonkeizai Shinbun February 9th 2001.

(Note 14) 「Five Fox」, 「World」 have already introduced SCM system (refer to Nihonkeizai Shinbun February 9th 2001) and not only apparels (for instance 「Aoyama」, 「Atsugi」 [refer to Asahi Shinbun 2001 May 25th]) but also manufacturers including electronics companies (refer to Nihonkeizai Shinbun June 20 2001) and even automobile companies (refer to Asahi Shinbun Ibid) are going to introduce the same system.

(Note 15) It is not sufficient to maintain their domestic market at the present diminished production level. For they cannot accept scale-merit which is necessary in the cost reduction to compete with the Asian textile industry especially the Chinese textile industry (Refer to Takayuki Okada & Shinitiro Kouno "Advanced technology and wandering strategy; the technology and the strategy of the up-stream & middle-stream" [Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply ?—』 <published

- by NTT Publication in April 2001>] p.171~174). Then, for the purpose of protecting their domestic market, the Japanese textile industry has to maintain an appropriate level of production by the acquisition of not only the domestic market but also the foreign market.
- (Note 16) It is noticeable that Uniqlo has a plan to open new shops in foreign countries for the purpose of the acquisition of the foreign market in the field of the casual apparel. It is reported that one of the new shops will be opened in London in the Autumn of the year 2001 [Refer to the article written by Yoichi Hunabashi "Utilize the Made in China" <Asahi Shinbun April 26th 2001>]] and it is reported that another one is going to be opened in China, which succeeds to the London shop and which is aimed to acquire even Chinese consumers, too (Refer to Asahi Shinbun August 7th 2001). Then we should never neglect that "Uniqlo model" is accompanied by "new marketing strategy" of the acquisition of not only the domestic market but also foreign one in the field of the casual apparel.
- (Note 17) Then it is expected that the new linkage will change the relation of business groups in the textile industry —namely the business process network in it— in two aspects. In the first aspect, the new linkage will change inconsistent relation to more consistent one. In the second aspect, the new linkage will advance from the first scenario (the middle-stream ⇔ the down-stream) to the second scenario (the up-stream [including the Chinese textile industry] ⇔ the middle-stream [including the Chinese textile industry] ⇔ the down-stream [the Japanese industry])

Chapter 3. The significance of the new business model and the way to realize it

We must take note of the huge emergence of Chinese industries including the textile industry and we should consider how to build the business network with them through taking up a case study of the knit industry in Niigata Prefecture.

Section 1. The emergence of the Chinese textile industry as one link in a chain of over-all emergence of Chinese industries and the significance of the new business model

1. The emergence of Chinese industries

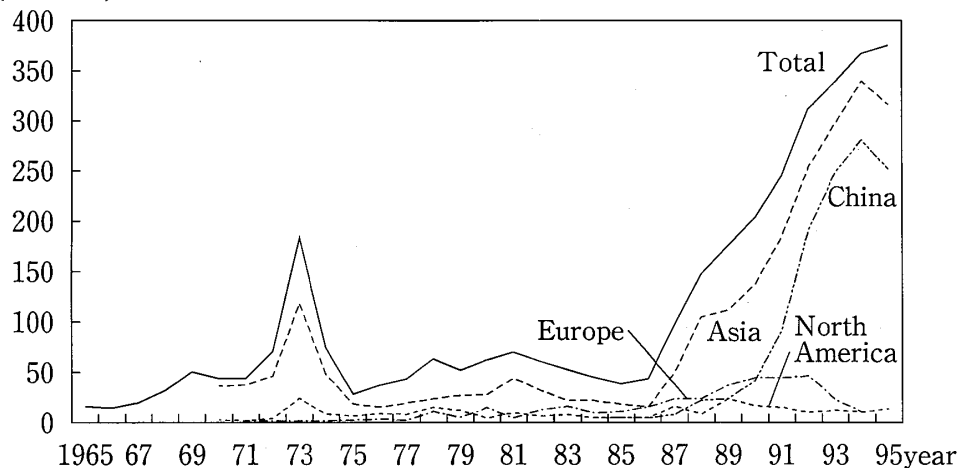
As was already explained, the Chinese textile industry is going to strengthen its competitiveness (See Chart 0-1) and behind this emergence there is a huge direct investment by the Japanese textile industry (See Chart 3-1-[1] • [2]). But we should never conclude hastily that this emergence is peculiar to the Chinese textile industry. We can find that even in the field of the electric & electronic industry there is a rapid advancement in China. It is reported that the amount of the production in the Chinese computer industry increased 37% compared to the year 1999 and reached ¥42,000 million in the year 2000 (Note 1). Then the Chinese electric & electronics industry has

already acquired the position of the top runner among Asian countries except Japan
(See Chart 3-2).

Chart 3-1 Foreign direct investment of the Japanese textile industry

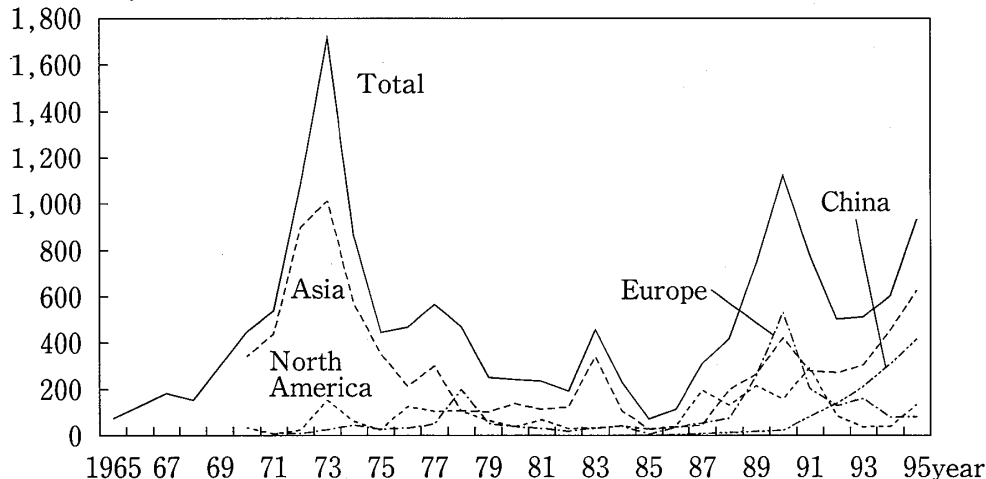
(1) The number of investment

(Number)



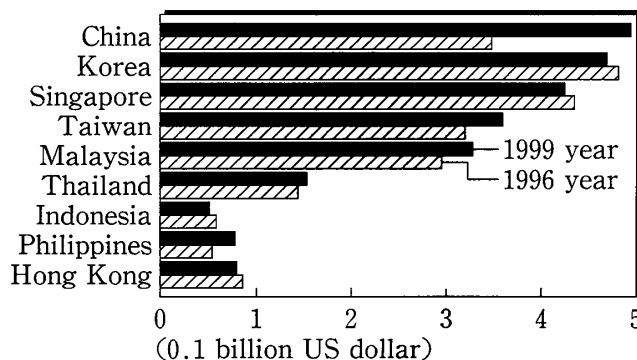
(2) An amount of investment

(0.1 billion yen)



(Source) Hiroyuki Itami 『The Japanese textile industry —Why has it lost its competitiveness so steeply?—』 (published by NTT Publication in April 2000) p.74.

Chart 3-2 An amount of electronics production in Asia



(Source) Tokuro Kuroda 「The Place of “Monozukuri” has already accumulated in China」 (Nihonkeizai Shinbun April 16 2001).

And that's not all. Sure enough, behind the emergence there is a huge direct investment by the Japanese electric & electronics industry (See Table 3-1). Even in the field of the automotive industry, if the present trend of automotive investment for China will continue (See Table 3-1), a Chinese emergence in the automotive industry will not be necessarily unfeasible.

Table 3-1 The Japanese direct investment toward China

	1998 fiscal year			1999 fiscal year		
	amount	share	increase rate	amount	share	increase rate
food	82	7.6	△14.5	26	3.5	△68.3
textile	37	3.4	△83.4	27	3.6	△27.0
timber • pulp	8	0.7	△72.4	3	0.4	△62.5
chemical	119	11.1	△ 9.1	89	11.9	△25.2
iron • non iron	74	6.9	△49.6	43	5.7	△41.9
machinery	89	8.3	△52.9	39	5.2	△56.2
electric • electronics	127	11.9	△69.9	67	8.9	△47.2
transportation	139	13.0	39.0	93	12.4	△33.1
others	127	11.9	△27.8	153	20.4	20.5
Total manufacturing	802	75.3	△46.9	541	72.0	△32.5
non manufacturing	245	23.0	△45.1	178	23.7	△27.3
branch	18	1.6	△30.7	32	4.3	77.8
Total	1,065	100.0	△46.4	751	100.0	△29.5

(Source) JETRO 『The report of foreign direct investment』 (2001) p.163.

Then we must recognize that China is going to grow up to a global base of manufacturing not only in the field of the textile industry but also even in the field of high-tech industries (Note 2) sustained by the Japanese direct investment (Note 3).

Under such kind of Chinese emergence, it is inevitable for us to form new international division of labour oriented to co-exist with Chinese industry. Because, unless we are successful in building of co-existence system among both countries, Japanese industries will be obliged to retreat owing to the defeat by the competition with Chinese industries.

2. The significance of the new business model

The Japanese textile industry is typical one which is most severely urged to select one of two choices namely a choice of co-existence with the Chinese textile industry or a choice of defeat by the Chinese textile industry mentioned above. Fortunately if the Japanese textile industry will be successful in buiding the new business model to co-exist with the Chinese textile industry, it will be useful not only in the Japanese

textile industry but also in other Japanese industries from the above-mentioned context. In conclusion, we should be urged to realize the new business model of the Japanese textile industry from this viewpoint. Especially we should be urged to realize it in local clusters because there are many textile industries in those clusters. Then we are going to find its possibility in the knit industry of Niigata Prefecture especially focussing on Gosen and Mitsuke knit clusters.

Section 2. A possibility to realize the new business model —Focussing on the Niigata knit industry—

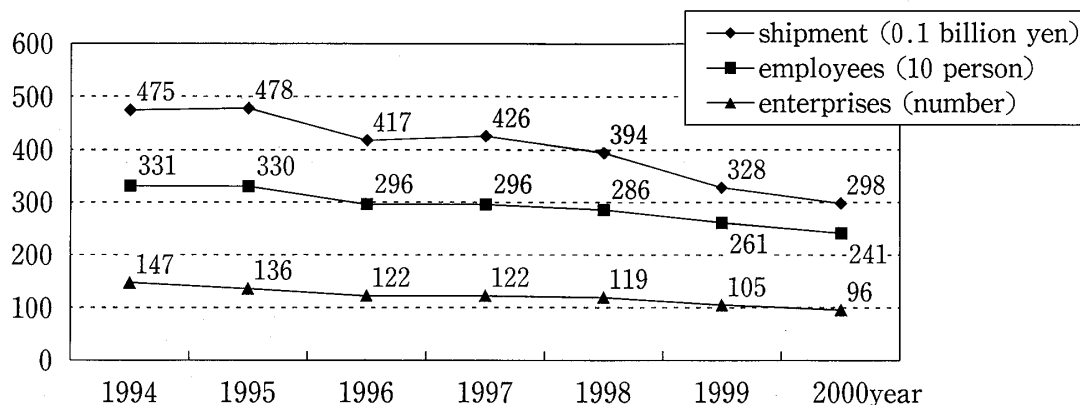
1. The serious circumstance surrounding the Niigata knit industry

Niigata Prefecture shares 23% of the Japanese knit production (equivalent to the sum of ¥360 billion) in the year 1997 and holds the first position in the Japanese knit industry. But we cannot neglect the fact that the volume of the knit clothes production of Niigata Prefecture has decreased at the rate of 42.7% from the peak in the year 1991 (237.5 million shirts) to the level in the year 2000 (136.3 million shirts) keeping with the decrease trend of the Japanese knit clothes production which has decreased at the rate of 44.4% from the peak in the year 1991 (658 million shirts) to the level in the year 1999 (336 million shirts) (Note 4). Concerning to the share of knit clusters in Niigata Prefecture, the Gosen knit cluster occupies 64% of total knit production in Niigata Prefecture and the Mitsuke knit cluster occupies 23% of it (Note 5). Then we will observe the circumstance of the knit industry in Niigata Prefecture focussing on Gosen and Mitsuke Knit clusters.

In the case of the Gosen knit cluster both of the shipment and employers are going to decrease remarkably (See Chart 3-3-[1]) resulting in a rapid increase of import penetration rate mainly owing to Chinese goods (Refer to Chapter 2 [Note 1]). As the result the number of enterprises is going to decrease rapidly, too (See Chart 3-3-[1]). In the case of the Mitsuke knit cluster, the situation is more serious. The amount of the shipment declined from peak level (75.9 billion yen) in the year 1991 to a half (38.3 billion yen) in the year 2000, the number of employees decreased from over 5,000 persons in 1991 to 3,245 persons in the year 2000, and the number of enterprises shrank from near 600 companies in 1991 to 376 companies in 2000 (See Chart 3-3-[2]).

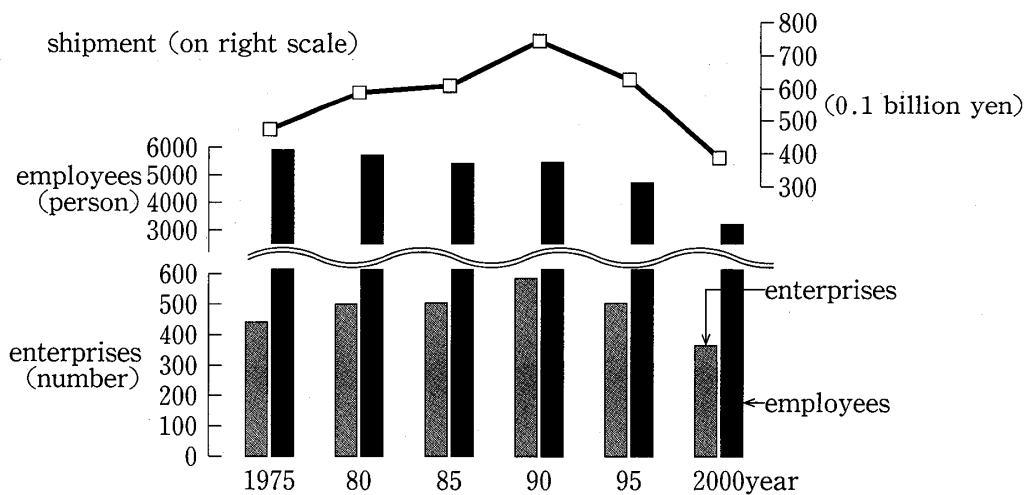
Chart 3-3 The change of shipment, employees and enterprises in Niigata knit clusters

(1) The Gosen knit cluster



(Source) Gosen knit cluster 『An Action Plan for the revitalization of the Gosen knit industry』 (August 2001) p.4.

(2) The Mituke knit cluster



(Source) Niigata Nippo October 11 2001.

We must take a notice of the retreat not only in the field of the quantity but also in the field of the quality. For instance the Gosen cluster is going not only to lose its advantageousness as the cluster —consisting of design & manufacturing technology, accumulation of manufacturing know-how, local collaboration etc—, but also to face the social change —for instance the outflow of young people and aging of engineer etc—. Then we must recognize it is very serious that such kind of structural change accelerates its quantitative retreat resulting in the difficulty of existence itself. Namely the Gosen knit cluster is dropping in vicious circle between quantitative decrease and structural deterioration.

Additionally we cannot neglect that Gosen and Mitsuke apparels (apparel makers)

have no original brand which is necessary to promote their marketing directly. For, as apparels in Gosen and Mituke are almost incorporated by major apparels being allocated mainly in Tokyo, they are obliged to engage only in OEM (Note 6) manufacturing in which the brand belongs to major apparels as OEM. Then to escape from the vicious circle mentioned above, it is inevitable for Gosen and Mitsuke apparels to break down OEM manufacturing.

We must recognize that from the observation of the serious circumstance surrounding of Gosen and Mituke knit clusters, it will be easily assumed that the circumstance surrounding other knit clusters in Niigata Prefecture would be the same as its surrounding Gosen and Mitsuke knit clusters.

Then to escape from such kind of serious circumstance, the subject of the Niigata knit industry should be put on the break down of OEM manufacturing, too.

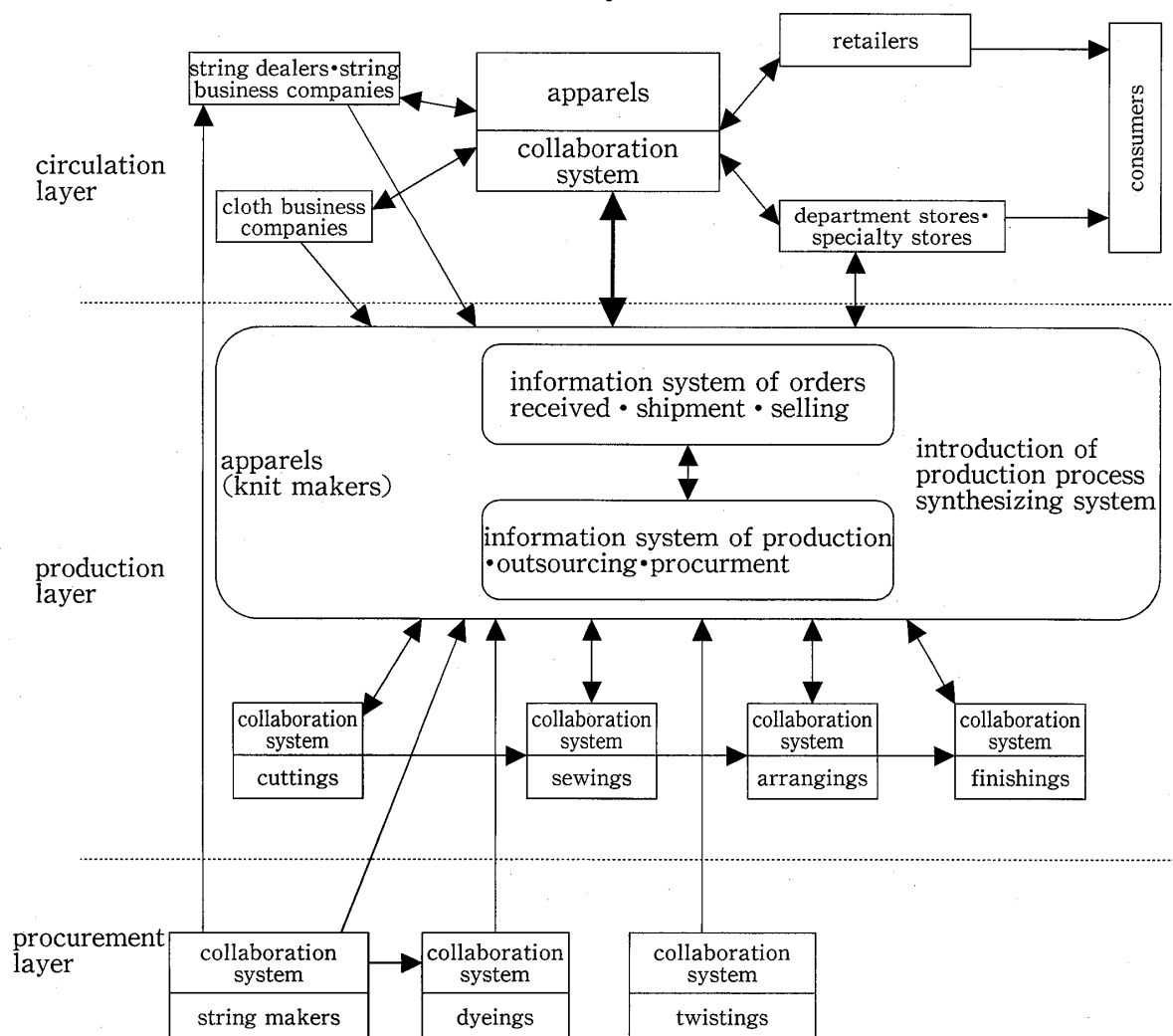
2. How can the Niigata knit industry revitalize ?

There is no need to say that Niigata knit apparels are trying to break down OEM manufacturing. They are trying three attempts. First attempt is to create the original brand especially in the case of Gosen apparels. (Gosen appasels call their oiginal kind as "Gosen Brand") To promote this attempt Gosen apparels are energetically trying (a) the deployment of "Brand Shop", (b) mail-order selling, (c) direct sales fair, (d) catalogue selling, (e) Internet-shopping etc. It is noticeable that Gosen apparels are trying this attempt alongside their new marketing strategy in which they expect to combine three elements —namely ① the expansion of market through the creation of original brand, ② the development of direct sales system used by Internet, ③ the creation of the new business model including the reform of thier management system itself—.

Second attempt is to access to EC (Electric Commerce) especially in the case of Gosen apparels, too. Relating to this attempt, we must quote two trials. Firstly they have founded new enterprise named "Internet Commerce" (Note 7) which is expected to promote (a) the collaboration among enterprises in the Gosen cluster (Note 8)—including ① improvement of data compatibility in the knit manufacturing, ② dissolution of overlapping business process, ③ accumulation of knitting data—, (b) creation of the market place to promote direct sales system mentioned above. It is noticeable that Gosen apparels are trying to create new EC model in which it will be possible to

link SCM (Supply Chain Management) to CRM (Consumer Relationship Management) because B-B-C process in EC will contribute to result in the formation of the SCM-CRM linkage. Secondly they are going to build the “Local Extranet System” (See Chart 3-4) which is attempting to synthesize multi-layers consisting of circulation layer, production layer and procurement layer—the multi-layers system is characteristic of the Gosen knit cluster—into a collaboration used by IT resulting in the expectation of the improvement of merchandise quality on the one hand and the decrease of merchandise price drastically on the other hand (Note 9).

Chart 3-4 The Local Extranet System in the Gosen knit cluster



(Source) Gosen knit cluster 『An Action Plan for the revitalization of the Gosen knit industry』 (August 2001) p.28.

Third attempt is to build the business network between Niigata knit apparels and the Chinese textile industry. It is reported that other apparels besides Gosen ones in Niigata Prefecture are eagerly trying to create new business network through the “borderless collaboration” including the utilization of Internet between them and the Chinese textile industry to realize the cost down being expected to promote their marketing abroad under more favorable price condition, too (Note 10). Especially it is noticeable that “First Knit Marketing” in the Mitsuke cluster has built new cooperating company in Mongolian district of China to promote a new linkage between the apparel and the sewing in the Knit industry through the “borderless collaboration” (Note 11).

These three attempts have a familiar relation. Then we can expect that Niigata knit apparels demonstrate repercussion effect resulting not only in the revitalization of the Niigata knit industry but also in the creation of the new business model in Japanese local textile industries.

It is interesting whether these attempts will realize the new business model in the textile industry especially in local clusters or not. There is no need to say that if they are successful in the creation of their new business model, they can not only continue to exist but also create new Japanese textile industry accompanied by provision of the new business model for other Japanese industries.

(Note 1) Refer to Nihon Keizai Shinbun April 30th 2001.

(Note 2) Concerning the emergence of the Chinese high-tech industry, refer to the article of Atsuro Kuroda “A bacement of ‘Monozukuri’ has been already accumulated in China” (Nihon Keizai Shinbun April 16th 2001).

(Note 3) There is no need to say that the emergence of the Chinese industry owes not only to the Japanese direct investment but also to other countries’s direct investment. For instance the rank of investors in the year 1999 is as follows. Hongkong invested 16.4 billion US dollar, United States of America invested 4.2 billion US dollar, Japan invested 3.0 US dollar, Bargin isllands invested 2.7 US dollar, Singapore invested 2.6 US dollar and Taiwan invested 2.6 US dollar (refer to JETRO [The report of the foreign direct investment] [2001] p.159).

(Note 4) Refer to “The Action Plan of the Gnen knit cluster —which has been designed to advance Gosen knit apparels—” (published in August 2001) p.1~2.

(Note 5) Shares of knit production in Niigata Prefecture in the year 1999 are as frollows. The Gosen knit cluster shares 64.1%, the Mitsuke cluster shares 23%, the Kamo cluster shares 11.2% and the Totio cluster shares 1.7%.

(Note 6) OEM;Original Equipment Manufacturings

(Note 7) Internet Commerce [URL;<http://www.nao.co.jp>]

(Note 8) Refer to “Cals Cyber Project” [URL;http://www.inters.co.jp/G_dream/index.html]

(Note 9) Refer to “An Action Plan of the Gosen knit cluster” (which has been designed to advance Gosen knit apparelers and has been published in August 2001) p.10~11. It is appraisal from the viewpoint of the positive trial for revitalization of Gosen knit apparels by their own effort. But I think they have two problems to solve for the purpose of accomplishment of their new business model. One problem is how to pursue the boarderless collaboration which is necessary to promote their new marketing strategy in which the “new business model” aims to acquire new market by realization of an intention —namely an intention which is consisting both of the improvement of merchandise quality and the decrease of its price—. This boarderless collaboration will be realized through building of a linkage of their procurement layer and foreign textile enterprises especially Chinese ones whose labour cost, in spite of their excellent skill and their high technology, is extraordinarily cheap expected to be result in drastic decrease of their merchandise price. (Concerning the level of the Chinese textile industry, refer to the article taking up the case of “Nishijin-ori” [Asahi Shinbun August 22nd 2001]. According to this noticeable article, we can easily recognize how the skill of the Chinese textile industry is excellent and how the level of its technology is high.) Another problem is how to form the boarderless exchange network system which is necessary not only in the case of the transformation of their production data into the form of EDI (Electronic Data Interchange) smoothly being necessary to pursue the boarderless collaboration especially in the field of production but also in the case of the web marketing in the market place through a linkage of their circulation layer and consumers especially foreign consumers including North East Asian countries. (For instance I have already proposed a design of boarderless exchange network system in the North East Asia [Refer to Yasuhiko Ebina “The Virtual Manufacturing and a design of North East Asian Information Network—The way how we can overcome the ‘Digital Divide’ in North East Asian SEMs (Small & Medium-sized Enterprises) and get the ‘Digital Opportunity’ for them—” 《Niigata University of Management [Journal of Niigata University of Management] No.7》 p.1~40 (URL;<http://www.bekkoame.ne.jp/~ebina4/Kiyo.7-0115.htm>)].)

(Note 10) Refer to Nihon Keizai Shinbun April 11th 2001. Moreover they are tring to buid new business network among Chinese software enterprise allocated in Harbin City of Heilungkiang in North East China and knitting enterprises in Niigata Prefecture to acquire IT engineers needed in knitting using by Internet (Refer to Nihon Keizai Shianbun October 25th 2000).

(Note 11) Refer to Nihon Keizai Shinbun September 13th 2001.